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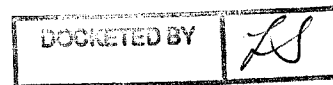
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September 11, 1996

Arizona Corporation Commission
DOCKETED

SEP 12 1996

Docket Control
Docket No. U-0000-94-165
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007



Dear Sirs:

Enclosed please find an original and ten copies of the comments of the Arizona State Legislative Committee of the American Association of Retired Persons in Docket No. U-0000-94-165 to investigate retail electric competition.

We appreciate the opportunity to comment on this very important issue.

Sincerely,

Ellen Corkhill/sa

Ellen Corkhill
Capital City Task Force Coordinator
Arizona State Legislative Committee



DOCKETED

SEP 12 1996

COMMENTS OF THE AMERICAN ASSOCIATION OF RETIRED
PERSONS CONCERNING ELECTRIC UTILITY INDUSTRY
RESTRUCTURING

Docket No. U-0000-94-165

RECEIVED
AZ CORP COMMISSION

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The Arizona State Legislative Committee of the American Association of Retired Persons (AARP) submits the following comments regarding the Arizona Corporation Commission's Proposed Rule on Retail Competition. AARP has advocated on behalf of residential ratepayers, and persons over 50 years of age in particular, throughout the United States on issues affecting this class of consumers in the various utility industries. The State Legislative Committee represents over 547,000 ratepayers throughout the state who are over 50 years of age.

I. Introduction

In general, AARP does not endorse retail competition in the electric industry. Instead, AARP favors a go slow approach in the move to a more competitive electric industry. In essence, AARP believes that state commissions should look at wholesale wheeling to see if it benefits residential ratepayers before initiating or endorsing any type of retail wheeling.

Although, in theory, all consumers should benefit in the form of lower rates from being able to shop for their electric power, the fact is that consumers of large amounts of power (manufacturers, for example) will be the first to benefit from retail competition and, most probably, will benefit to the greatest extent. For residential ratepayers, however, retail competition in the electric industry includes a number of potential pitfalls. One potential danger is that as large industrial customers leave the system, residential consumers will have to pay for plant and capacity originally built to accommodate these industrial users.

Given that the Arizona Corporation Commission has issued a proposed rule on retail electric competition, AARP appreciates the opportunity to present comments on this issue, which affects all of our members in Arizona.

AARP believes that the following measures should be taken by the Commission to help ensure that the benefits of retail competition reach residential ratepayers in an equitable and timely fashion.

II. Issues and Comments by Section

A. Issues not addressed by the Commission.

The Commission does not address the question of corporate structure in its proposed rule. In order to ensure a competitively vibrant electric utility industry, AARP supports the complete divestiture of generating assets from transmission and distribution assets. Only by requiring this type of corporate structure can the Commission guard against anti-competitive actions by presently vertically integrated utility companies.

B. Section R14-2-xxx1. Definitions

In defining "stranded investments," the Commission states that the amount of stranded investment equals the "verifiable net difference between the value of all the prudent jurisdictional assets under traditional regulation of Affected Utilities and the market value of those assets directly attributable to the introduction of competition." AARP is interested in how the Commission will determine which investments are prudent. For example, will the Commission conduct a utility by utility review? And, will there be an opportunity for public comment on the prudence of a utility's investment?

In addition, how will the Commission determine the market value of these investments? AARP would like to caution the Commission against underestimating the market value of any asset by using the incorrect measurement, e.g. the spot market price of electricity.

C. R14-2-xxx4. Competitive Phases

AARP would advocate the Commission's review of retail competition throughout the phase-in process as a way of monitoring the effect of retail competition on all classes of customers, specifically the residential ratepayer class. AARP applauds the Commission for mandating that a percentage of eligible demand be reserved for residential ratepayers.

AARP also applauds the Commission's allowance for aggregation. However, we would like to caution the Commission against putting too much faith into the aggregation concept. Although aggregation promises to deliver the benefits of competition to all customers, there is no guarantee that aggregators will in fact aggregate the residential load.

With regard to how customers will be selected for participation in retail competition, AARP would advocate a process that ensures that residential ratepayers, at the very least, participate and benefit in an equitable and timely fashion from retail competition. With this in mind, we believe that the first-come, first-serve selection process would not accomplish this goal and that the random selection method may not be feasible either. However, the designation of geographic areas may work if the areas chosen include a substantial number of residential ratepayers. The Commission endorses this concept in E.2. of this section.

D. R14-2-xxx5. Competitive Services

AARP has some concerns about the Commission's endorsement of a market structure based solely on bilateral contracts. Does the Commission feel that this market structure is most beneficial for all customers? Or, does the Commission plan to conduct a study on which market structure would best serve all classes of customers? AARP fears that a bilateral contract model would provide almost no guarantees for residential ratepayers.

E. R14-2-xxx6. Services Required To Be Made Available by Affected Utilities

AARP is concerned that residential ratepayers will not have the necessary information or bargaining power necessary to take advantage of a competitive electric utility industry. As a result, AARP would suggest that the Commission not only investigate whether competition has been substantially implemented, but whether it has been implemented in a manner that allows all customers to benefit, particularly residential customers.

AARP is also concerned about residential ratepayers who simply do not have the choice of power suppliers because no supplier deems it profitable to serve customers in a particular geographic area or in a particular income group. Does the Commission plan on addressing the provider of last

resort issue? Will a utility be required to provide power to customers who have no choices under retail competition? And, if so, will prices and service quality be regulated in a manner that ensures quality service at just and reasonable rates for these customers?

F. R14-2-xxx7. Recovery of Stranded Investment of Affected Utilities

AARP believes that residential ratepayers should not have to pay for any stranded investments resulting from competition in which they do not participate. Subsection F this section seems to endorse this point of view.

In addition to the mitigating factors that the Commission listed in Subsection A, AARP would like the Commission to consider the following additional factors that have already led to and will lead to mitigation of stranded investments:

- a. inefficient investment
- b. misallocation of costs
- c. previously compensated risk
- d. new revenue opportunities under competition

AARP would urge the Commission to measure and identify stranded costs using these criteria.

G. R14-2-xxx8. Systems Benefit Charge

AARP applauds the Commission for recognizing that only consumers who participate in the competitive market should have to pay for a systems benefit charge. However, AARP is not sure that a systems benefit charge is the appropriate mechanism for funding programs that have not been closely scrutinized for their cost-effectiveness.

H. R14-2-xxx10. Pooling of Generation and Centralized Dispatch of Generation or Transmission

In order to ensure a truly competitive marketplace, the Commission should advocate a completely independent ISO. This rule would help protect against the manipulation of prices.

I. R14-2-xxx12. Rates

AARP believes that if market rates are not affordable for certain segments of the population then the Commission should require the development and implementation of low-income programs. The strengthening of low-income programs will help ensure that all segments of the population can afford electricity.

III. Conclusion

AARP appreciates the opportunity to comment on the issues affecting residential ratepayers, particularly older persons, in a restructured electric utility industry. Although we favor a "go slow" approach, we look forward to actively participating in any process the Commission deems appropriate as it moves forward with plans for retail competition.

Respectfully submitted,

Ellen Corkhill /scw

Ellen Corkhill
Capital City Task Force Coordinator
Arizona State Legislative Committee
American Association of Retired Persons